

Message Text

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ACTION AF-08

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FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC NIACT IMMEDIATE 0197

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PASS EXIMBANK FOR BEIM FROM LENTZ

E.O. 11652: N/A (DECONTROL UPON RECEIPT)

TAGS: EFIN, CG

SUBJECT: INGA-SHABA COST OVERRUN

REF: STATE 262571

1. SEQUENCE OF PAYMENTS NEGOTIATED BY US WITH GOZ (SECTION 2 OF PAYMENT FACILITY AGREEMENT) SEEMS TO POSE NO PROBLEM FOR EXIMBANK FOR FOLLOWING REASONS:

A. PROCEEDS DUE TO SOZACOM FROM 70 PERCENT PREFINANCING COPPER EXPORTS BY SOCIETE GENERALE DE MINERIAS ARE INCLUDED IN DEFINITION OF EXPORT PROCEEDS PER SECTION ONE OF AGREEMENT, AND, THEREFORE, DO NOT HAVE PRIORITY OVER AMOUNTS DUE EXIMBANK. PREFINANCING ESSENTIALLY A WASH TRANSACTION. OUR PAYMENTS IN A GIVEN MONTH COULD COME FROM 70 PERCENT PREFINANCING OR 30 PERCENT RESIDUAL PAYMENT. CONSEQUENTLY, WE SAW NO REASON TO OBJECT TO GOZ REQUIREMENT THAT PREFINANCING BE MENTIONED.

B. WE UNDERSTAND, HOWEVER, YOUR PRIMARY CONCERN IS WITH PRIORITY GIVEN 10 PERCENT SET ASIDE FOR DEBT SERVICE. THIS IS CONSIDERED A MOST REASONABLE GOZ REQUEST FOR PRIORITY AS IT TIED TO MULTI-LATERAL IMF STABILIZATION PROGRAM AND PARIS CLUB DEBT RESCHEDULING. IT IS A PRIORITY THAT EXIMBANK HAS PREVIOUSLY ACCEPTED IN OUR DISCUSSIONS WITH OTHER PARIS CLUB MEMBERS WHO VOICED

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CONCERN AT PRIORITY ASPECTS OF PAYMENT FACILITY. OUR ARGUMENT

WAS THAT FACILITY COULD NOT STAND SUPERIOR TO CURRENT OR ANY FUTURE PARIS CLUB RESCHEDULING, AND ON THIS BASIS, WE HAVE STILLED WHAT OTHERWISE WOULD BE SERIOUS OBJECTIONS FROM MANY QUARTERS.

C. WE UNDERSTAND FROM PREVIOUS DISCUSSIONS WITHIN EXIMBANK THAT IBRD PRIORITY POSED NO PROBLEM AND COULD BE CONSTRUED AS AN ADVANTAGE SINCE IT CLEARLY INDICATED THAT IBRD HAD FIRST ESTABLISHED A PAYMENT FACILITY-TYPE ARRANGEMENT. THIS POSITION INCORPORATED IN EARLIEST DRAFT OF AGREEMENT GIVEN TO GOZ IN AUGUST. PARI PASSU POSITION FOR EXIMBANK WOULD REQUIRE CONCURRENCE OF IBRD AND AMENDMENT OF IBRD/UBAF TRUST AGREEMENT WHICH HAS BEEN IN PLACE FOR ABOUT 9 MONTHS.

D. A WORST CASE ANALYSIS OF THE NUMBERS APPEARS TO INDICATE WE DO NOT HAVE PRACTICAL PROBLEM WITH PAYMENT SEQUENCE AS NEGOTIATED. ASSUMING 50 CENT/POUND COPPER AND PRODUCTION OF 400,000 METRIC TONS, EXPORT PROCEEDS WOULD BE \$440 MILLION. PREFINANCING, BEING A WASH, CREATES NO DEDUCTION. IMF/PARIS CLUB SET ASIDE WOULD BE \$44 MILLION AND WORST YEAR IBRD-RELATED DEBT SERVICE (1979) \$40 MILLION. OUR WORST YEAR DIRECT AND GUARANTEED DEBT SERVICE OF \$12 MILLION (ALSO IN 1979) IS ABOUT 3.3 PERCENT OF \$356 MILLION BALANCE.

2. GIVEN ABOVE CIRCUMSTANCES, WE HESITATE TO RAISE WHAT WOULD BE SIGNIFICANT CHANGE IN OUR POSITION WITH GOZ. IN ANY EVENT, GOVERNMENT HAS CLOSED FOR WEEKEND AND WE DEPART TONIGHT FOR NAIROBI.

3. GOZ COOPERATION OVER PAST WEEK IN ALL ASPECTS PAYMENT FACILITY HAS BEEN EXCELLENT, AND WE APPEAR TO BE CLOSE TO CONCLUSION THIS DIFFICULT CASE.

4. FOR DEPARTMENT: PLEASE CONTACT DAVID BEIM, EXECUTIVE VICE PRESIDENT, EXIMBANK, ON ABOVE. HIS PHONE NUMBER IS (202) 338-3636.
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Margaret P. Grafeld
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